

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

ANNUAL COMPLIANCE REVIEW, 2022

Docket No. ACR2022

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO CHAIRMAN'S INFORMATION REQUEST NO. 21**
(March 27, 2023)

The United States Postal Service hereby provides its responses to Chairman's Information Request No. 21, issued on March 21, 2023. Each question is stated verbatim and followed by its response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

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1. In its Motion, the Postal Service states that:

The Postal Service's [Decision Analysis Reports (DARs)] for capital spending projects are divided into two types, and have been for at least 15 years. "Generative" DARs are so called because they generate either cost savings or revenue. These are the DARs that the Postal Service either detailed to the Commission as part of ACR 2022 in USPS-FY22-45 and USPS-FY22-NP31 or would fall within the additional revenue-generating DARs to be filed in response to question 2. The other type of DAR for capital spending projects are "sustaining" DARs, so called because they represent projects that are simply necessary for the Postal Service to continue functioning.

Motion at 3-4. The Postal Service further represents that sustaining DARs "include projects such as replacing roofs and HVAC systems on or in Postal facilities, repaving postal parking lots, and obtaining alternate facilities from which to do business because of fire, flood, or loss of lease in the existing facility." See *id.* at 4.

- a. Please describe in detail the process used to categorize DARs as either "generative" or "sustaining." In the response, please describe the types of personnel that are responsible for categorizing each DAR into one of the two types (identify whether they are headquarters and/or local field personnel, their department/operating unit(s), their relevant chain of command, and their job function), and all criteria used by such personnel to categorize each DAR as either "generative" or "sustaining."
- b. Please describe how a capital spending project would be categorized if it included elements of both cost reduction and Postal Service maintenance, beyond the statement in the Motion that "there may be a cost-saving component to a sustaining DAR in a sense..., but sustaining DARs are, overall, without net cost savings or revenue generation." *Id.* As part of the response, please specifically discuss the following examples:
 - i. During the course of necessary replacements of leaky roofs, the Postal Service also installs solar panels with the intention of either generating energy for use in the impacted facilities or selling energy back to the grid.
 - ii. During the course of necessary HVAC system replacements, the Postal Service elects to install greener, more efficient HVAC systems that would result in energy cost savings.
 - iii. Some long-life vehicles near the end of their usable lives are replaced with electric or hybrid vehicles.

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RESPONSE:

- a. Categorizing investments as either generative or sustaining is much simpler than the question appears to envision—a separate review and categorization process of some kind. Rather, it is an integral part of the DAR process itself, from its beginning.

In order to have a capital investment approved, the sponsor must first prepare a DAR business case, which describes the opportunity for, and purpose of, the investment or the problem the investment is designed to solve. The business case must include sufficient information, supporting documentation, and analysis for approving officials to make an informed decision that the proposal is (or is not) an appropriate use of Postal Service funds.

Most importantly here, the business case must also justify the investment either as generative or sustaining, F-66 § 1-3.1.2, and the F-66 itself defines those terms:

Generative Investment: An investment that provides a measurable improvement to USPS operations and produces an economic benefit that meets or exceeds the discount rate for the specific type of project. Compare with *sustaining investment*.

Sustaining Investment: An investment that is not based on economic benefits but that assures continuity of existing operations while maintaining security, service, and working conditions. Compare with *generative investment*.

F-66, Appendix A.

In short, DARs are conceived as either generative or sustaining and reviewed and approved accordingly.

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DARs, whether generative or sustaining, go through largely the same review and approval process, with a few material differences. Generative DARs and sustaining DARs will use different assumptions about risk and required return and, more to the point here, while generative and most other DARs must ultimately be approved at Postal Service Headquarters by the Senior Vice President for Finance and Strategy, sustaining DARs under \$5 million and initiated by the field are approved at the lower, field level, by the Vice President of Facilities. F-66, section 3, "Project Review and Approval."

- b(i). If a DAR merely replaced a leaky roof with a new roof that doesn't leak, it would be a sustaining DAR. This hypothetical, however, is more complicated, and the determination depends on facts not given.

The Postal Service is taking the opportunity to install solar panels on the new roof and to power the facility that way. That, initially, is a much more expensive proposition than merely replacing the roof and is not strictly necessary to the continuation of operations. If the intention of installing the solar panels is cost savings, that is, if installing solar is an investment opportunity, then this would be a generative DAR. It is also possible, however, that the Postal Service is installing the solar panels not to achieve net cost savings but primarily to meet environmental and sustainability goals. In that circumstance, or if the solar panels do not earn back their initial investment over the period of analysis, then the DAR could be sustaining.

- b(ii). In this hypothetical, unlike the addition of the solar panels in hypothetical b(i), the Postal Service is only replacing an HVAC system that has reached the end of its

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useful life, works poorly, or doesn't work at all with an HVAC system that does work. In so doing, the Postal Service may choose to purchase more efficient equipment that has a lower cost of ownership over its useful life, but the purpose of the investment is not to achieve those savings but to replace the HVAC and to provide appropriate working conditions for employees in the facility. This is a sustaining DAR.

- b(iii). As in response b(ii), this is also a sustaining DAR. Rather than trying to continue to drive superannuated vehicles, the Postal Service is replacing vehicles that are past their useful life, work poorly, or don't work at all with functioning vehicles. In so doing, the Postal Service may choose to purchase more efficient equipment that has a lower cost of ownership over its useful life than the present equipment. However, the purpose of the investment was not those savings but to acquire vehicles in which carriers may reliably and safely deliver the mail.

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2. Please provide a public copy of, or a working website link (that is accessible to the general public rather than restricted to Postal Service employees) to, any applicable Postal Service handbook or manual describing the matters at issue in the response to question 1 above, including the most recent version of Handbook F-66, *General Investment Policies and Procedures*.

RESPONSE:

As implied by the question, the relevant manual is Handbook F-66, which provides a comprehensive overview of the Postal Service's investment policies and procedures. Taken as a whole, the Postal Service views this handbook as information of a sensitive commercial nature that under good business practices would not be publicly disclosed. Consequently, for example, on page 21 of Publication 223, *Directives and Forms Catalog* (updated December 2022), Handbook F-66 is listed with an edition date of 11/19, but the column for Public Source indicates Not Applicable. (The link to Publication 223 is <https://about.usps.com/publications/pub223.pdf>.) Therefore, the Postal Service is filing the most recent version of Handbook F-66 under seal in USPS-FY22-NP43 (six files, f66*.pdf). It may be additionally noted, however, that searches for Handbook F-66 on internet search engines may provide access to previous versions of the handbook, but those all appear to be obsolete, and their potential availability does not affect the Postal Service's evaluation of the status of the current version.